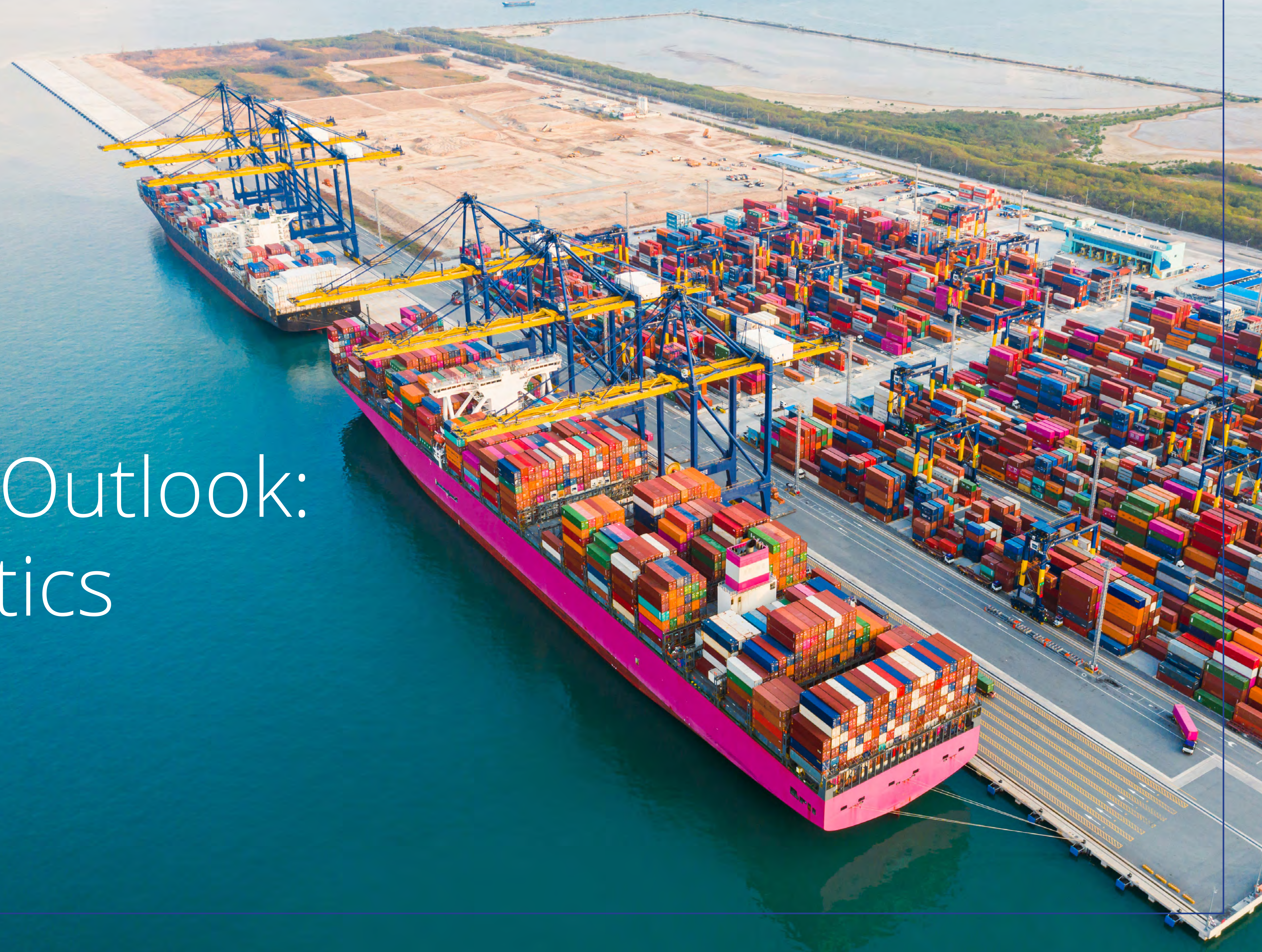
Colliers

GLOBAL CAPITAL MARKETS



Global Insights & Outlook: Industrial & Logistics

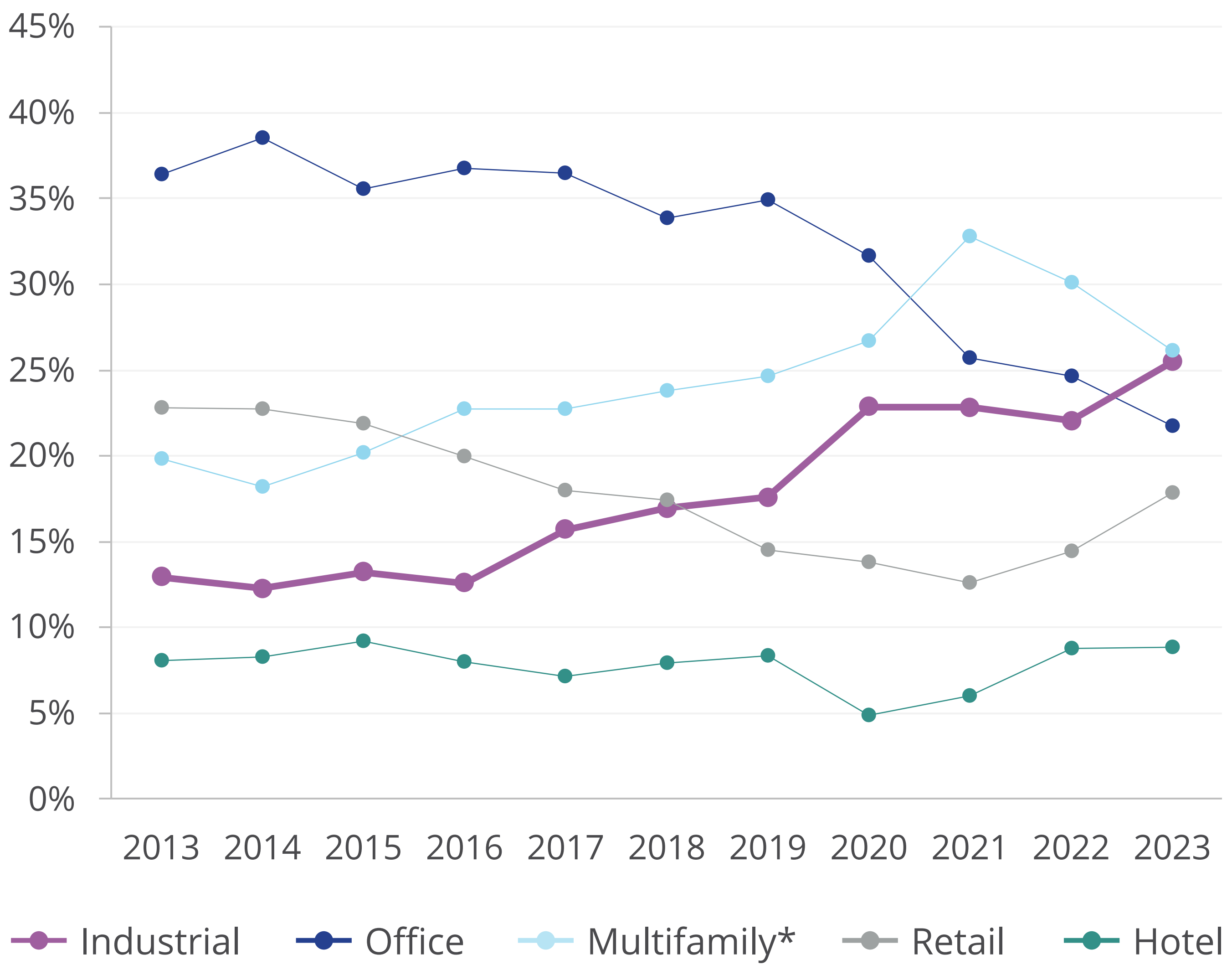
OCTOBER 2023

Industrial & logistics - investors' top pick

For the last two years, the industrial and logistics (I&L) sector has been the top pick for investors globally, based on results from our [2023 Global Investor Outlook survey](). Our findings highlighted that investors have deepened their interest in the sector, considering a broad array of asset types across the supply chain, see figure 2.

This level of global appetite is reflected in a strong expansion of investment activity in the sector. Since 2016, activity has doubled relative to other real estate asset classes, see figure 1. As of the midway point in 2023, the sector continues to gain market share, and now accounts for 25% of all global activity.

Figure 1. Global investment volumes by sector (standing assets)



* Multifamily includes open-market, purpose-built apartments for rent only

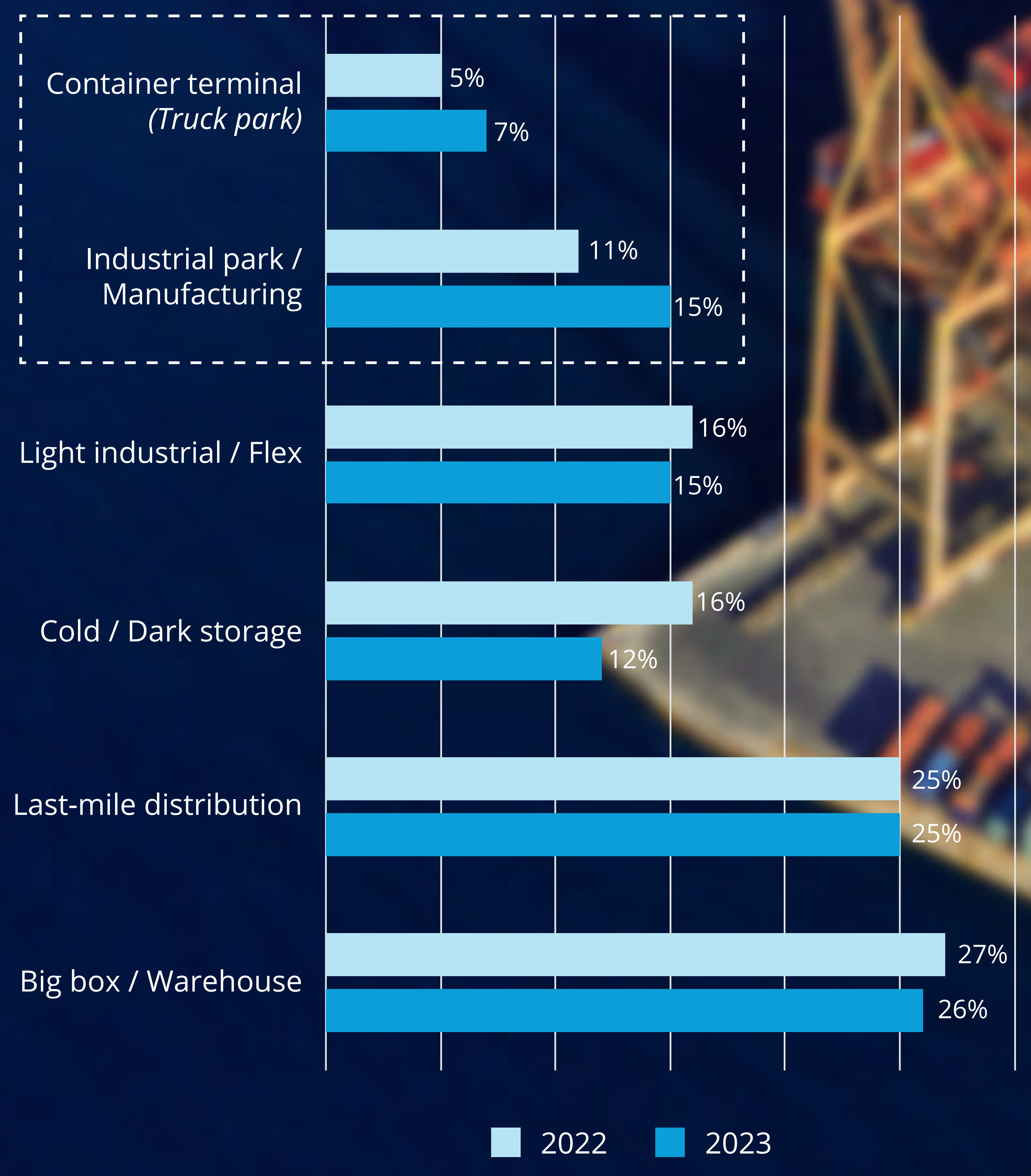
Source: Colliers, MSCI Real Capital Analytics

60% of investors were looking to invest in industrial & logistics in 2023.

Source: Colliers 2023 Global Investor Outlook Report

Figure 2: Which types of industrial & logistics assets do you intend to invest in during 2023?

% of investors who will be investing in industrial & logistics assets during 2023.

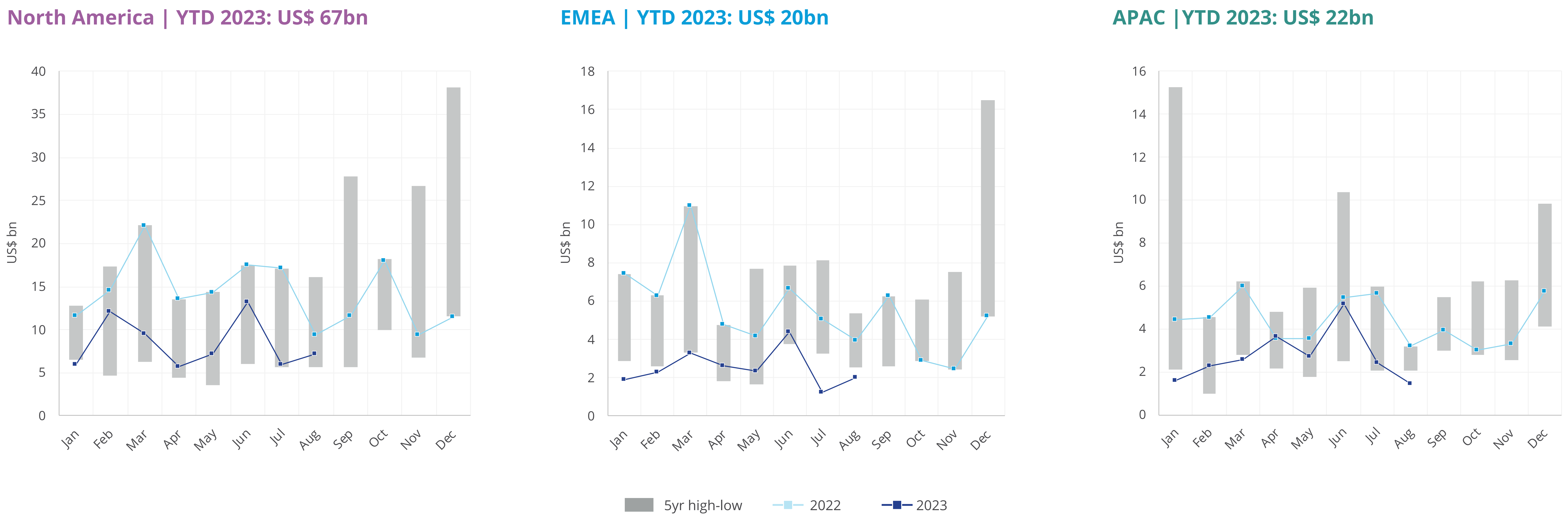


Source: Colliers 2023 Global Investor Survey

Monthly investment volumes trending positively

While overall investment activity has remained sluggish through 2023, I&L activity has outperformed across each region, see figure 3. It has traded within, or very close to, the five-year range, particularly in North America and APAC. Q2 saw the sector rebound strongly, and it has avoided the 'summer holiday slump' witnessed more generally in North America and EMEA.

Figure 3. I&L monthly investment volumes to August 2023



Source: MSCI Real Capital Analytics

Global capital destinations

The top 10 destinations for cross border investment into I&L so far in 2023, as seen below, are the deeper, more established and liquid markets. Each of these markets have increased their market share of investment relative to the five-year average. Commensurate with strong regional investment figures for North America, the U.S. and Canada top the list. The depth and positive spread nature of Japan sees it feature highly, as does the UK where yields have priced harder and faster than the rest of the European continent.

Figure 4. Top 10 global I&L cross border capital destinations: H1 2023 US$ mn

	COUNTRY	CROSS BORDER TOTAL	CROSS BORDER GLOBAL	CROSS BORDER REGIONAL	2023 % OF TOTAL	2018 - 2022 % OF TOTAL
1.	United States	6,869	5,637	1,232	▲ 32.4%	26.6%
2.	Canada	5,188	4,078	1,109	▲ 24.5%	20.1%
3.	United Kingdom	4,015	3,605	410	▲ 18.9%	15.5%
4.	Japan	1,367	70	1,297	▲ 6.5%	5.3%
5.	Germany	1,151	570	581	▲ 5.4%	4.4%
6.	Italy	1,000	678	322	▲ 4.7%	3.9%
7.	The Netherlands	984	572	412	▲ 4.6%	3.8%
8.	Spain	924	239	685	▲ 4.4%	3.6%
9.	Australia	876	447	429	▲ 4.1%	3.4%
10.	Sweden	840	691	149	▲ 4.0%	3.2%

▲ Increase from 2022

Source: Colliers, MSCI Real Capital Analytics

Global capital sources

The picture regarding major capital sources of cross border spending reflects the general shift in all-sector investment. While cross border spending is c.50% down from its peak at the end of 2021, Singaporean capital has markedly increased its share of activity - more than doubling its market share. Investors from Japan, the United Arab Emirates, Spain and the Netherlands have also increased their share. U.S. and Canadian investors have reduced their global activity, focusing on domestic opportunities.

Figure 5. Top 10 global I&L cross border capital sources: H1 2023 US$ mn

	COUNTRY	CROSS BORDER TOTAL	CROSS BORDER GLOBAL	CROSS BORDER REGIONAL	2023 % OF TOTAL	2018 - 2022 % OF TOTAL
1.	Singapore	8,971	7,187	1,784	▲ 32.7%	14.2%
2.	United States	7,648	6,474	1,175	▼ 27.9%	31.9%
3.	Canada	2,358	1,126	1,232	▼ 8.6%	12.7%
4.	Japan	1,743	1,133	611	▲ 6.4%	0.4%
5.	United Arab Emirates	1,082	868	214	▲ 3.9%	0.5%
6.	Germany	890	0	890	▼ 3.2%	5.5%
7.	United Kingdom	698	7	691	▼ 2.5%	7.2%
8.	France	610	0	610	▼ 2.2%	2.9%
9.	Spain	585	469	116	▲ 2.1%	0.4%
10.	The Netherlands	485	49	437	▲ 1.8%	0.6%

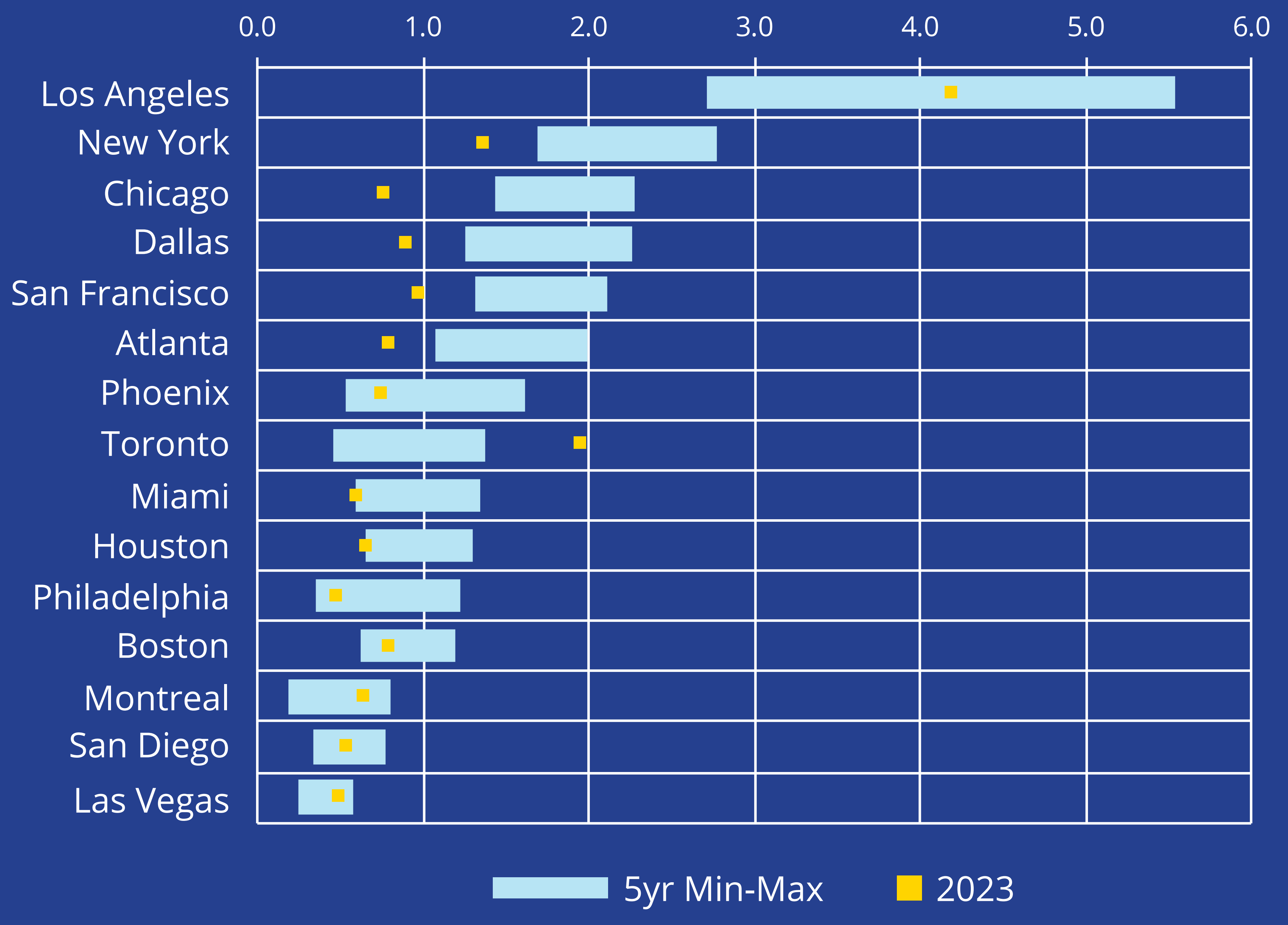
▲ ▼ Increase/decrease from 2022

Source: Colliers, MSCI Real Capital Analytics

North America

Investors are still clamoring for industrial product in the U.S. After the rapid rent growth of recent years, investors want short-term leased properties with near-term access to the rent roll. These strong mark-to-market deals are still trading at low cap rates, while longer-term leased properties have seen more cap rate expansion. Demand remains strong, though the delivery of new space has picked up, causing vacancies to increase from all-time lows. Strong population growth and stable employment levels are providing further demand tailwinds for industrial leasing in Canada.

Figure 6. Average activity volumes (Qrt), US$ bn, H1 2023



Source: MSCI Real Capital Analytics

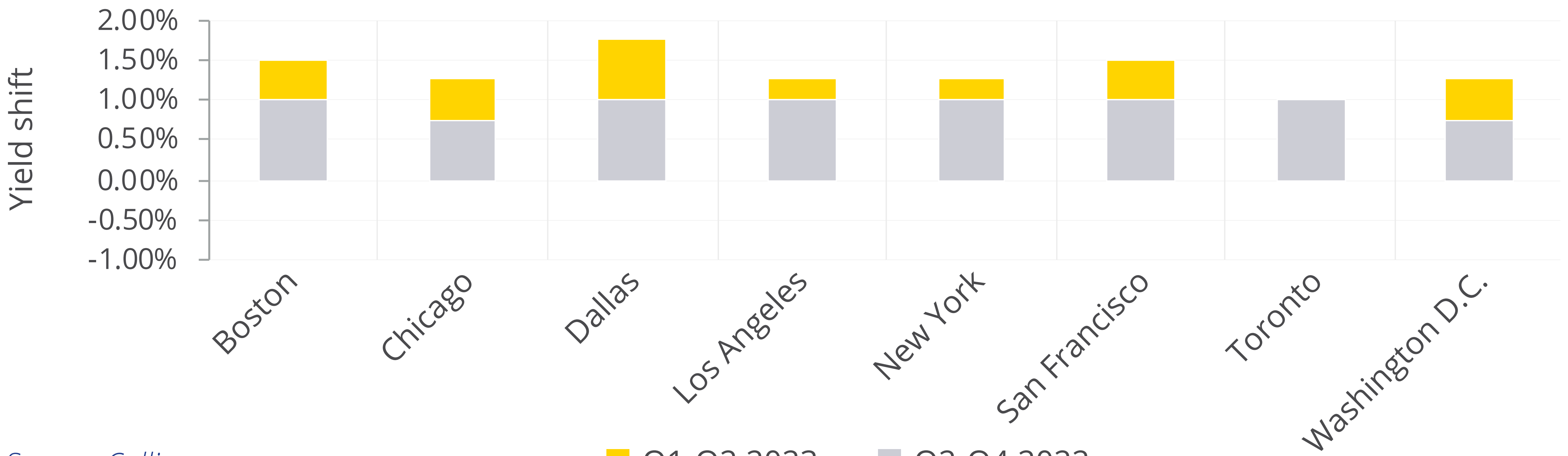
Three key deals in 2023

1. Prologis/Blackstone Portfolio
Nationwide, U.S.
Deal price US$ 3.1 billion

2. Corona Lakeside
Inland Empire, California
Deal price ±US$ 325 million

3. Fedex Ground Terminal
Vaughan, Ontario, Canada
Deal price c.US$ 147 million

Figure 7. Yield movements, %

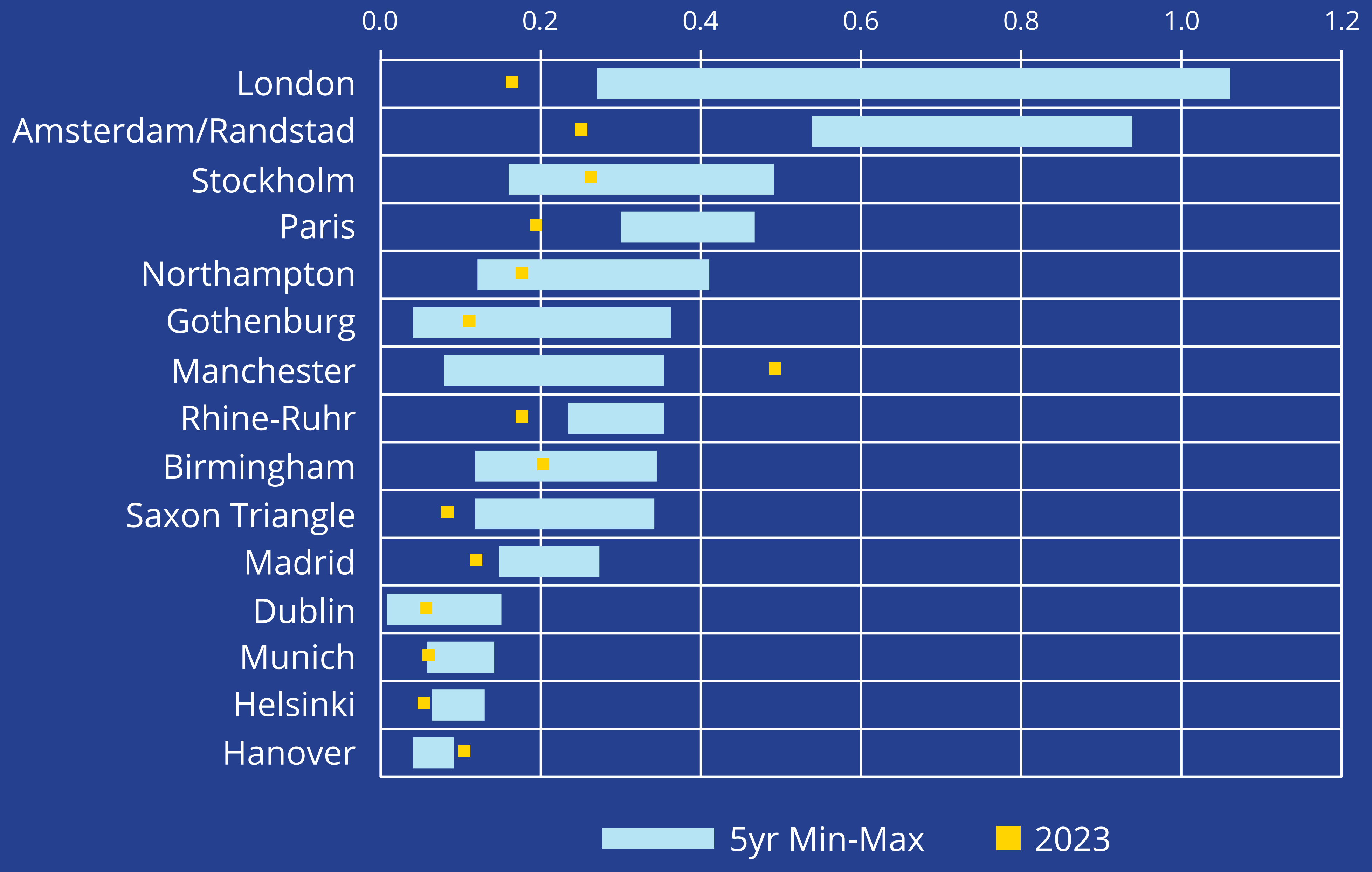


Source: Colliers

EMEA

The occupational market remains favourable towards landlords in most markets. Rental growth continues to be positive, often beating medium-term inflation targets, with very low vacancy rates for core product in core locations. There is more evidence of transactions taking place, including some larger lot size deals, as bid-ask spreads diminish with more certainty around pricing. Many established investors are looking to re-balance and diversify their portfolios. Other investors plan to act as passive capital partners with new and established players to gain access to the sector. We expect a rebound in investment activity over the course of H2 2023 as the market re-balances and re-engages.

Figure 8. Average activity volumes (Qrt), US$ bn, H1 2023



Source: MSCI Real Capital Analytics

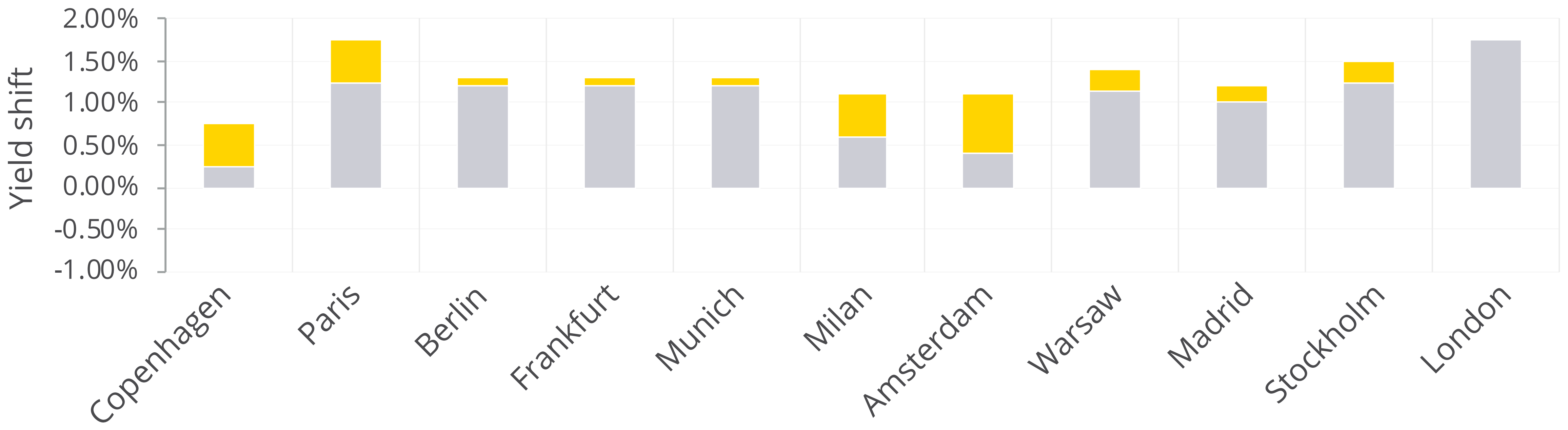
Three key deals in 2023

1. Clarion Portfolio
Germany
Deal price US$ 267 million

2. Falcon Portfolio
Norway
Deal price US$ 131 million

3. Javelin Portfolio
UK
Deal price c.US$ 120 million

Figure 9. Yield movements, %

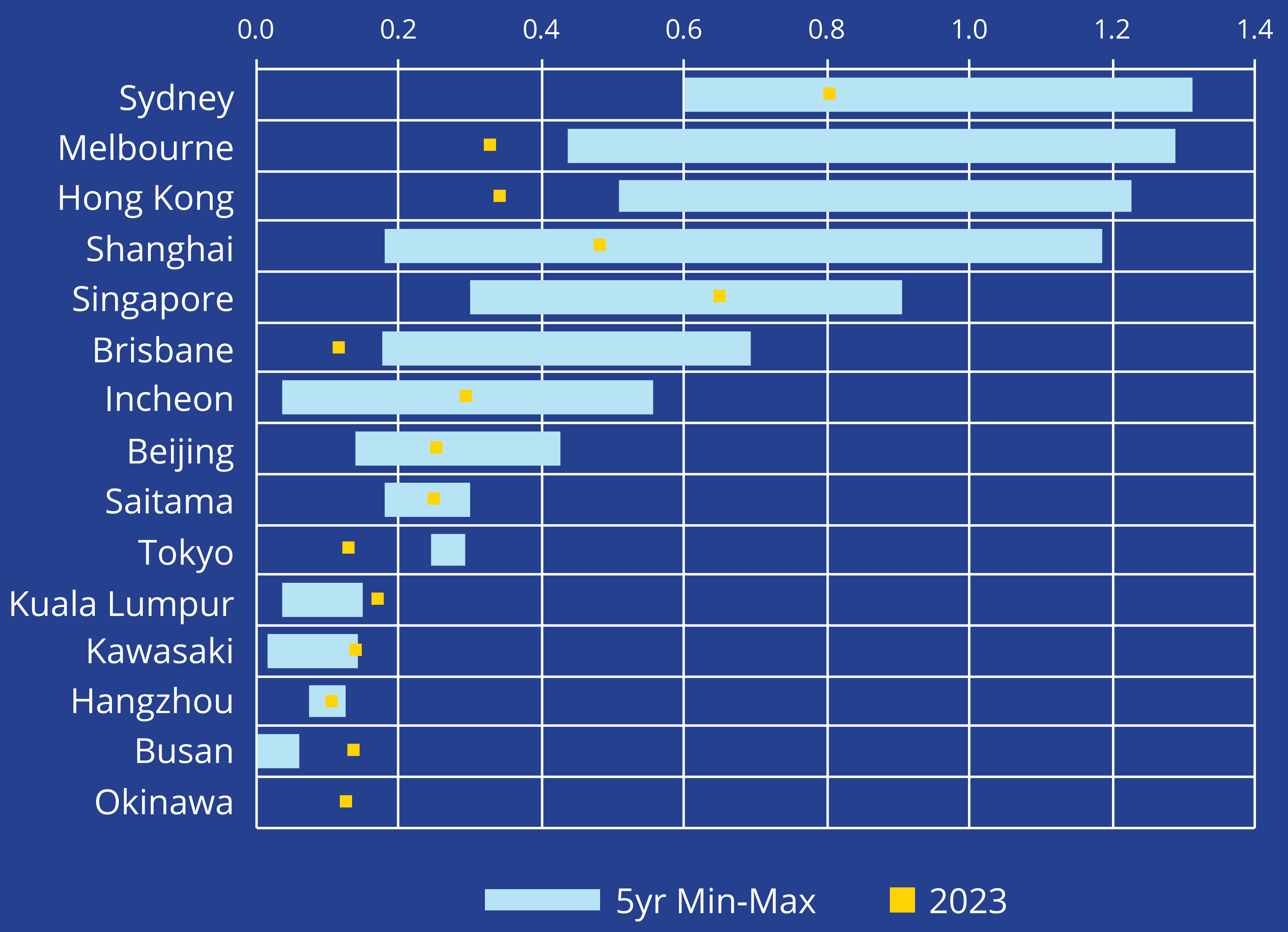


Source: Colliers

APAC

Across Asia Pacific, year-to-date (Sep-23) US$ 26 billion worth of industrial assets have been sold, with most transactions done within China, Australia, South Korea and Japan. Value-add capital remains the most active in the market; however, passive investors have recently been undertaking market and sector due diligence ahead of potential acquisitions which include portfolio and re-capitalisation opportunities. A back-log of new supply is coming through across markets, which is softening the supply-demand imbalance and easing the rental growth outlook as vacancy stabilises.

Figure 10. Average activity volumes (Qrt), US$ bn, H1 2023



Source: MSCI Real Capital Analytics

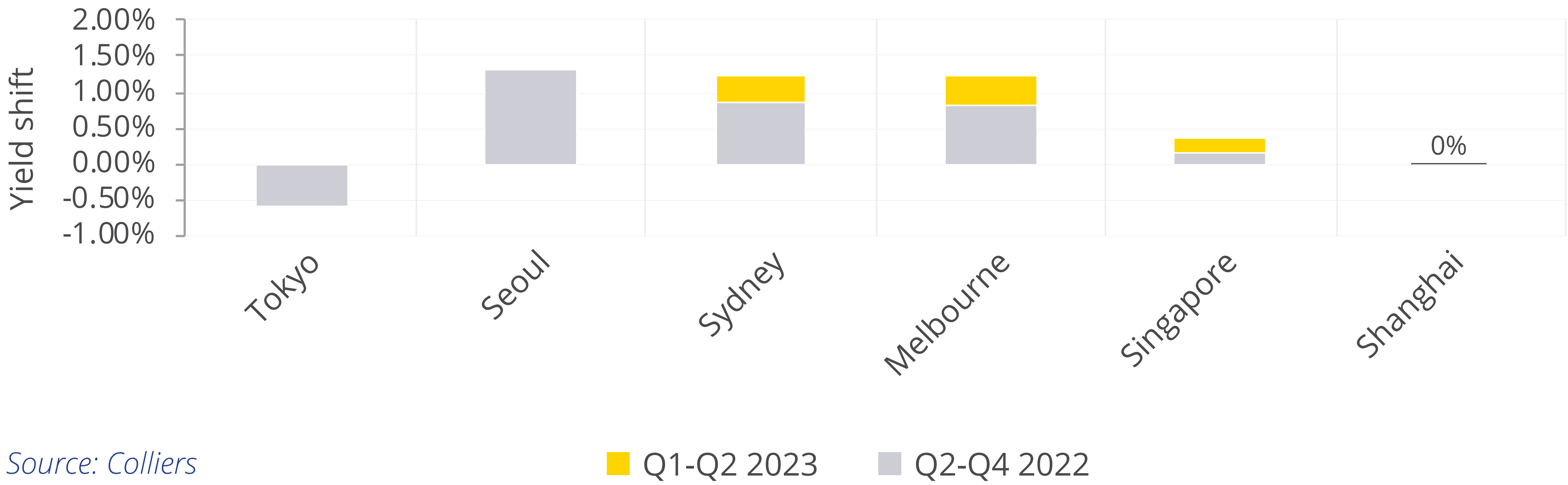
Three key deals in 2023

1. Blackstone Logistics Portfolio
Japan
Deal price US$ 800 million

2. 42-52 Raymond Avenue
Matraville, Australia
Deal price US$ 87.3 million

3. 146 - 154 O'Riordan Street
Mascot, Australia
Deal price US$57.26 million

Figure 11. Yield movements, %



Source: Colliers

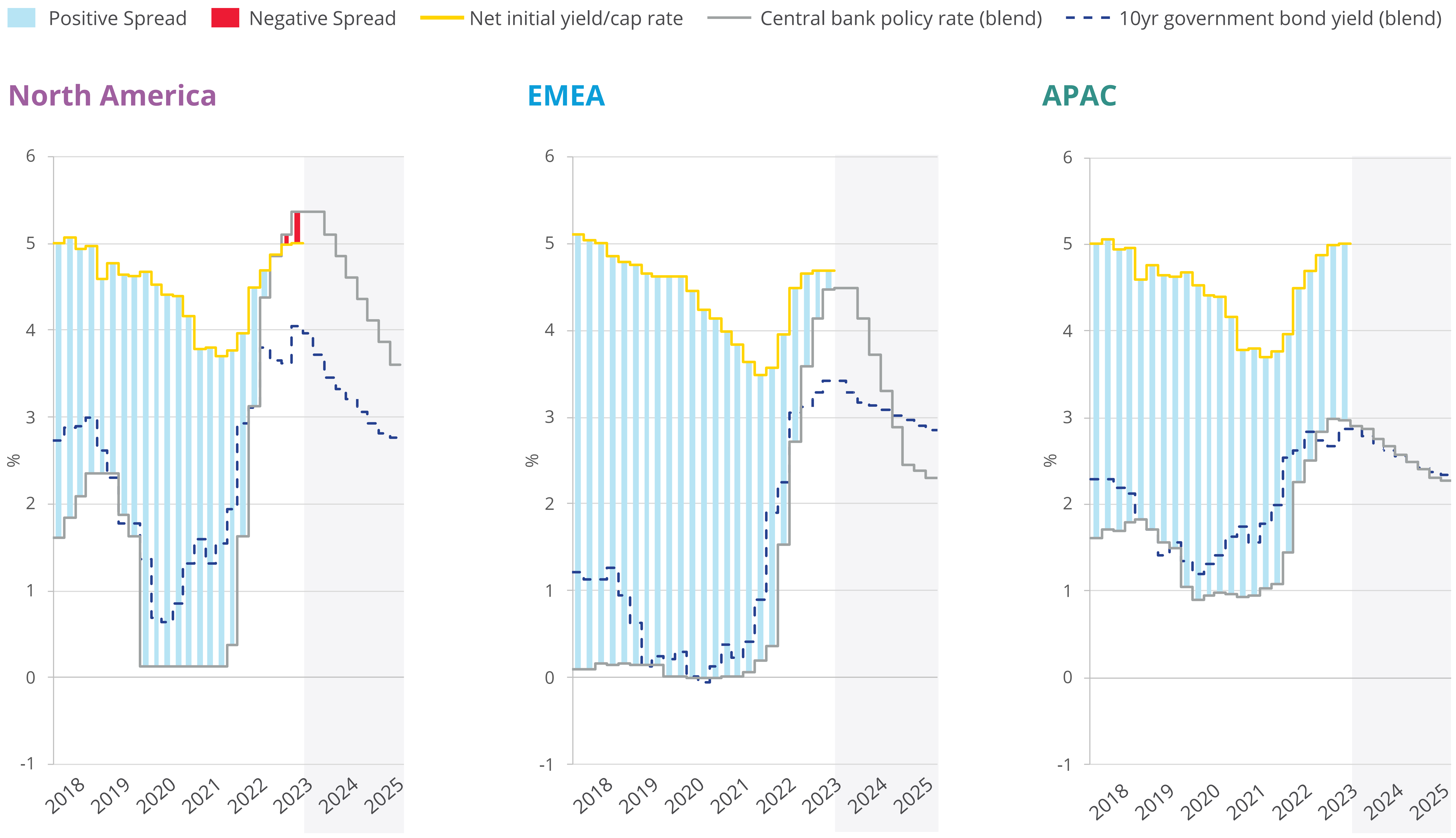
Global spreads remain tight, but in-line with rate rising cycle

A key factor in the attractiveness of the I&L sector to investors has been the rapid re-pricing, from a yield/cap rate perspective. Industrial assets have repriced more aggressively than any other real estate sector, by a global average of 107 basis points since Q1 2022 *(offices have repriced by 83 basis points, retail shopping centres/malls by 68 basis points and multifamily by 56 basis points)*. This has kept investment pricing more in-line with the outward movement in interest rates.

Although spreads to central bank policy rates remain thin in EMEA, or slightly negative in North America, the sentiment that we have now reached the peak for central bank policy rates is providing a more solid basis to price assets, see figure 12. While rates may remain elevated for longer, and funding costs continue to impact yields/cap rates, a period of challenging price discovery is coming to an end.

Additionally, relative to 10-year government bond yields, the spread is now much more positive. Overall, this is supporting the deployment of capital into the sector, particularly for those with a longer-term horizon, or that are more equity driven.

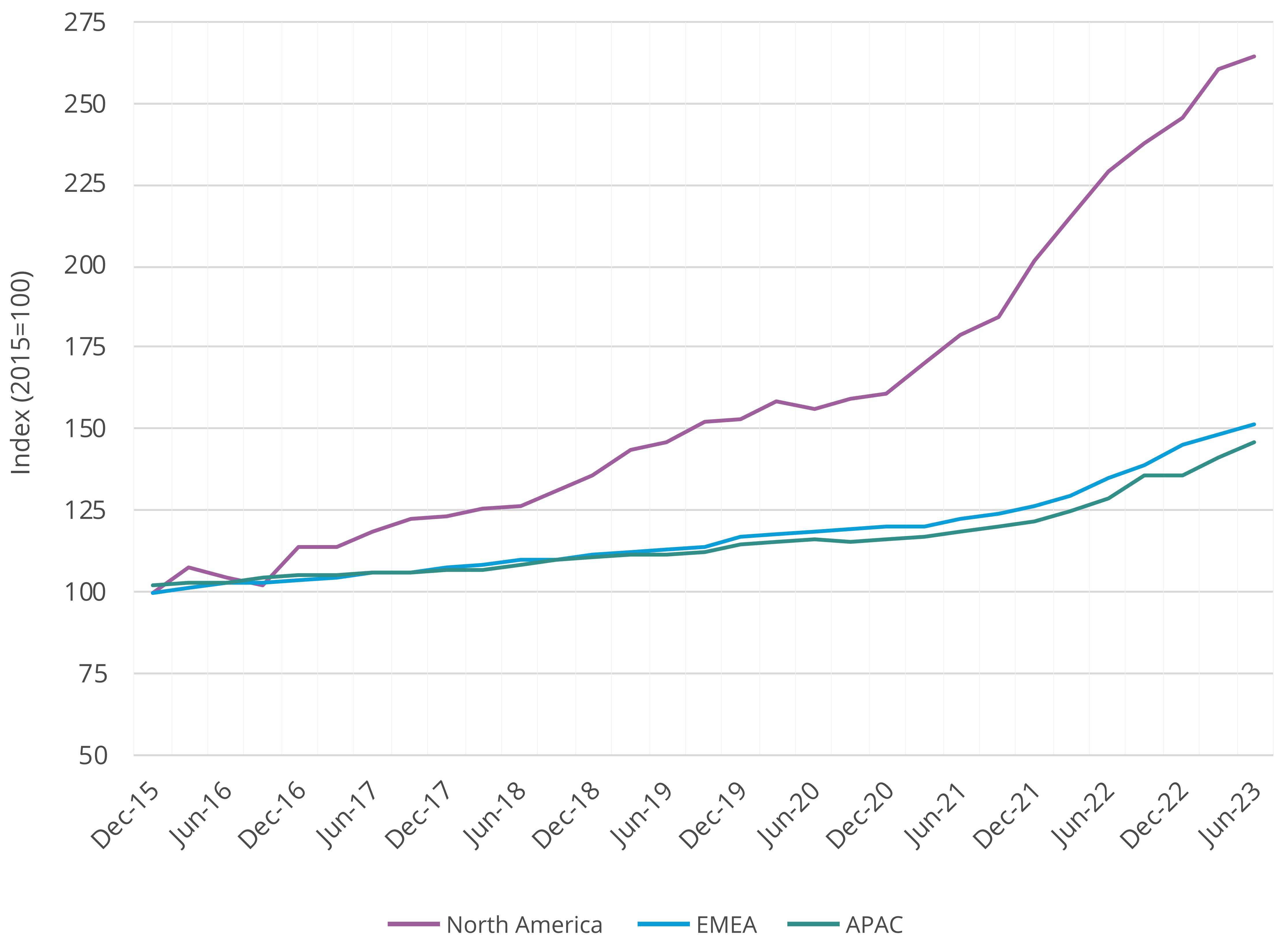
Figure 12. Yield/cap rate spreads, %, I&L



Source: Colliers, Oxford Economics

Rental growth trajectory remains positive

Figure 13. Regional, industrial prime rent indices



Source: Colliers

One of the key factors driving interest and strong/clear repricing into the sector has been its income profile. In each region, rents have been expanding at a moderate-to-fast pace, and consistently year-on-year, see figure 13. Rents in EMEA and APAC have expanded by 50% since 2015, particularly since 2021. Across North America, rents have almost tripled.

In most instances, rents have moved from a historic low-base as net demand for space has expanded and overall requirements have been upgraded to meet growing commercial needs and levels of sophistication. Growth in e-commerce, data centres, and more recently growth in the near/re-shoring of supply chains, have been huge contributors to demand.

Capital values stabilising, while vacancy remains low

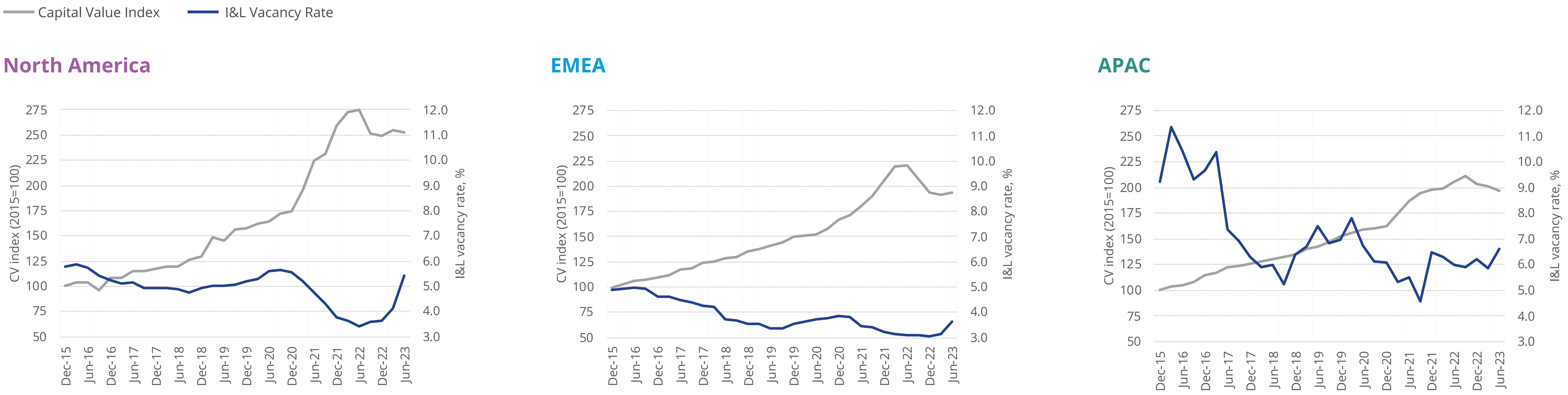
The overall supply-demand imbalance of industrial space is in large part a reason for higher rents. This trend has been consistent globally, unlike trends in other major real estate asset classes, with vacancy rates operating at or below 6% in each region for several years.

Although vacancy is trending up slightly in each region as new development has expanded, see figure 14, this tends to be in pockets/specific locations in each region. There is limited evidence of any impending over-supply to come via new development.

Slower economic output and a cyclical reduction in retail spending will impact demand, but primarily in terms of a slowdown in net demand growth. This is leading to a more stable outlook across markets, with rental growth rates cooling off.

Overall, lower rental growth, or indeed more stable rents, points to capital values flattening out. However, future movements in yields/cap rates differ by region. The prospect of higher interest rates for (slightly) longer is driving further cap rate expansion in the U.S. Expectations in EMEA and APAC are that prime yields have topped out, generating the prospect of yield compression in two to three years time on the back of interest rate falls.

Figure 14. Vacancy & capital value indices



Source: Colliers

Future Factors: Digitisation - e-retailing

E-commerce has been a huge factor in the growth of the logistics sector over the past decade. However, as figure 15 illustrates, countries are operating at different rates of e-penetration (the proportion of sales that are e-retail driven), in-line with divergent consumer behaviour, cultural norms and retailer operations - despite a gradual shift towards electronic transactions.

Irrespective of penetration rates, the evolution of e-retailing is similar across markets depicted by our global e-retailing evolution index, see figure 16. The index is based on input from the countries listed in figure 15, which shows that e-retailing expanded progressively before its growth was amplified in 2020 during the pandemic. Penetration rates dropped back slightly in 2021/22 as society and economies emerged from lockdown. Activity has slightly picked up in 2023, but at a much lower rate of expansion. This reflects a level of maturity in the market, but how e-retailing expands and evolves across markets will not be uniform. Further expansion looks inevitable as younger, digital natives account for a higher proportion of wealth and spending. For this to materialise, the depth/capacity and sophistication of digital infrastructure needs to improve, alongside a modernisation of supply chains, warehouse, storage and distribution facilities.

Figure 15. Current e-retail % penetration rates

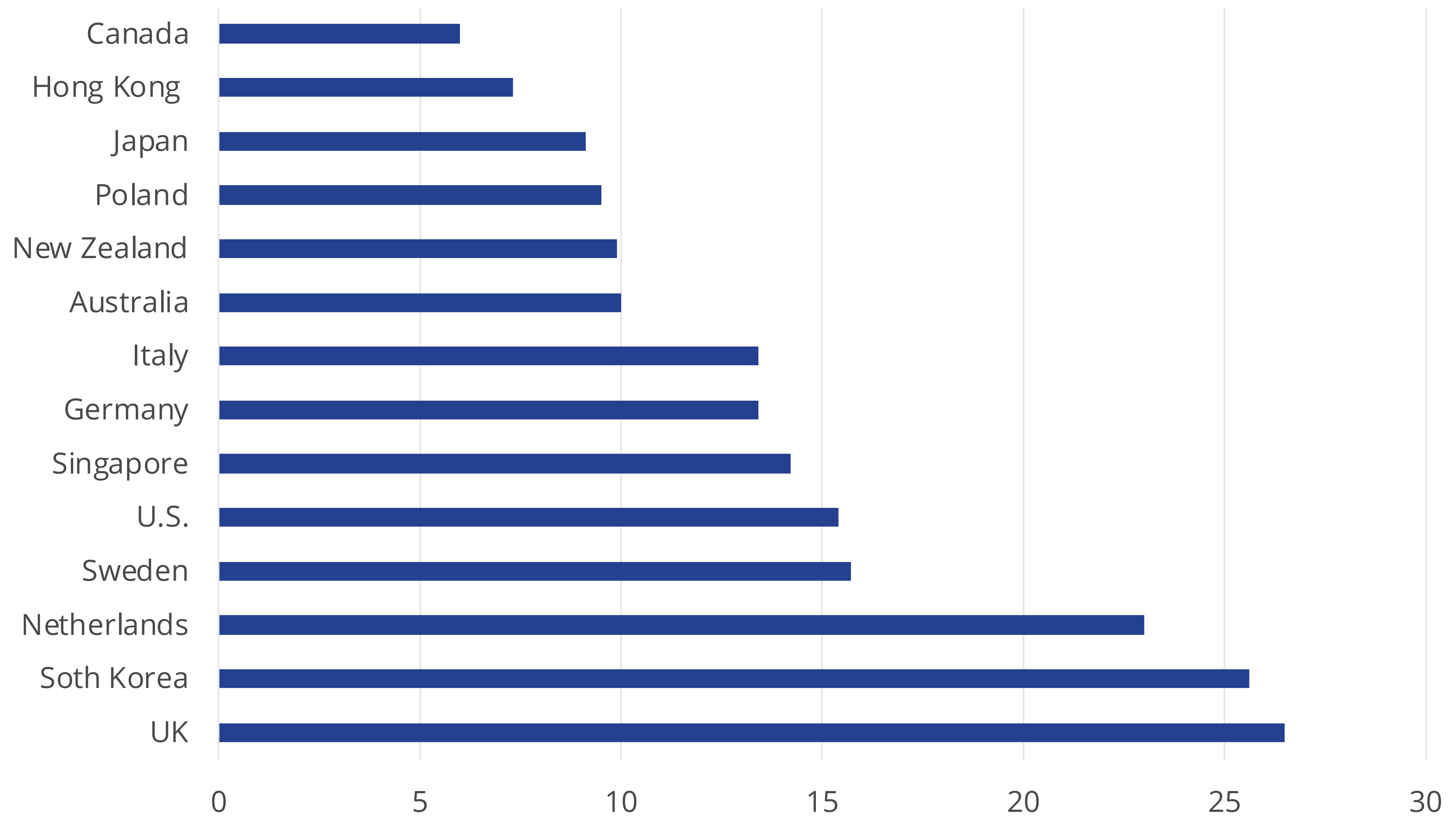
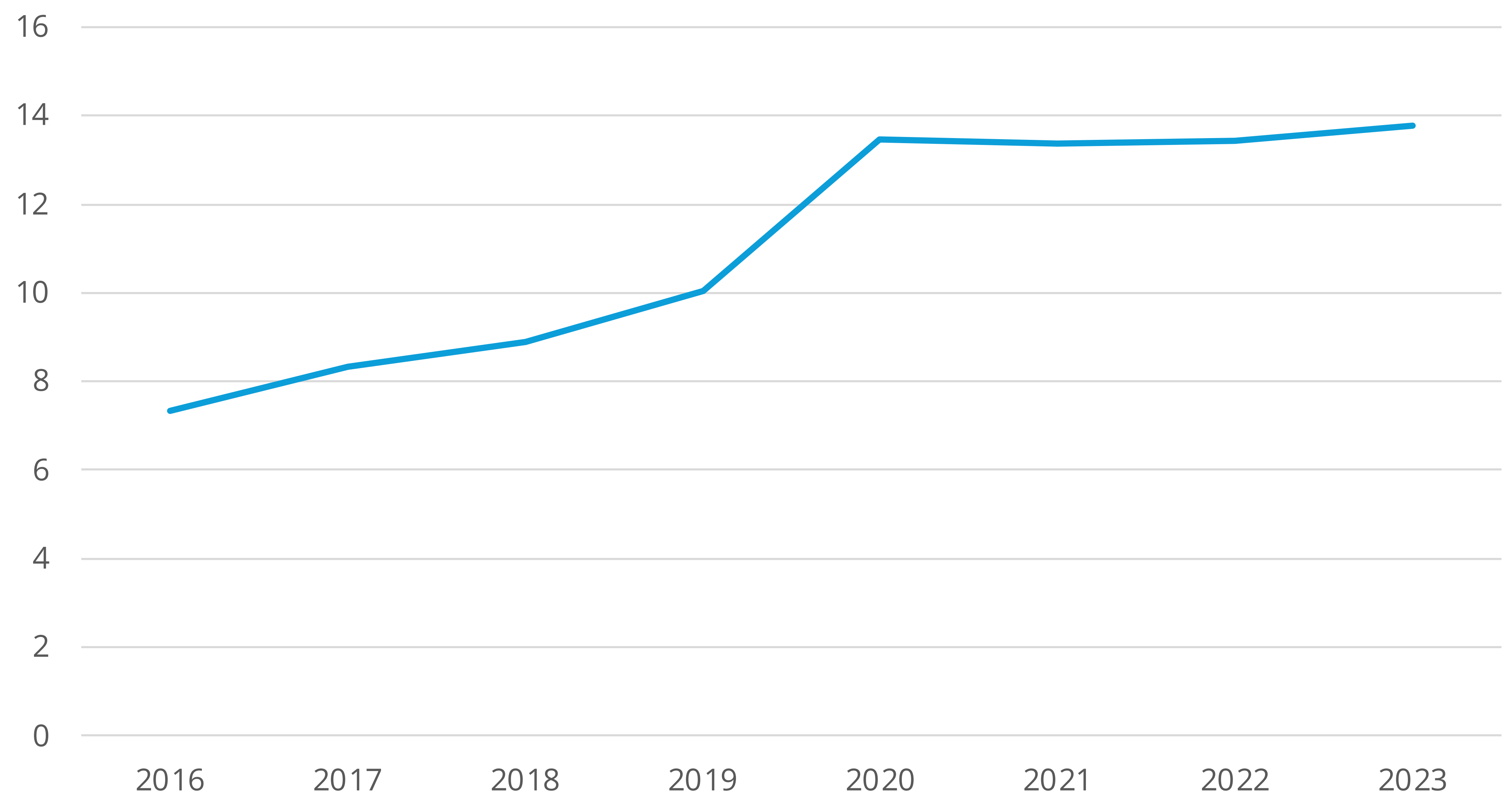


Figure 16. Global e-retailing evolution (average % of retail sales)



Source: Colliers, various

Future Factors: Digitisation - data centres

The expansion of e-commerce and data centres are clearly intrinsically linked. As with the I&L sector more broadly, the data centre market remains hot.

The U.S is the world's most advanced data centre market, yet demand has outstripped supply in recent years as the need for bandwidth and data storage has exploded. Unlike other industries significantly impacted by the pandemic, the data centre industry received a major boost as the frequency of business conducted online increased sharply. Investors, predominantly private equity, have been drawn to this asset class due to its critical business importance and strong credit tenancy. Capital is also coming from sources outside of pure commercial real estate plays, with infrastructure funds targeting the sector. American Tower, Blackstone, DigitalBridge, and KKR have invested over US$ 45 billion combined in entity-level purchases. Moreover, competition is expected to remain intense, prompting more mergers and acquisitions over the next five years. Find out more in Colliers 2023 Data Centre Marketplace report.

In EMEA, global hyperscalers have been particularly active, and pushing into more under developed/ frontier markets. The top 10 hyperscalers have invested over US$ 26 billion in EMEA in the last 10 years, US$ 9 billion of which was invested in 2022. Dublin has joined the established FLAP group (Frankfurt, London, Amsterdam and Paris) in recent years, benefiting from connections to global fibre-optic networks. Warsaw, Madrid, Milan, Helsinki, Berlin and Brussels have also benefited from growing connections to this network and the opportunity for hyperscalers to tap into strong growth markets for cloud-based services.

Data centres remain a key growth sector for APAC. The sector is expected to reach over US$ 53 billion of investment by 2028 as it expands by 12% annually (CAGR). India is a key growth market currently witnessing an exponential increase in data consumption. This, combined with a supportive regulatory framework, is attracting global hyperscalers. They are ramping up expansion plans across the country to capitalise on increasing demand for cloud-based services. This year, Google signed a 28- year land lease agreement for its new data centre in Navi Mumbai, to expand its cloud infrastructure in India. Over the next three years, India's data centre stock is likely to double to 23 million sq ft, translating to a total investment potential of US$ 10 billion. Investors are enthused by burgeoning demand, relatively stable returns and higher yields. Mumbai is the most mature market for data centres in India, hosting half of the data centre capacity of the country, and is becoming a key market for the APAC region.

Investment into data centres:

U.S.

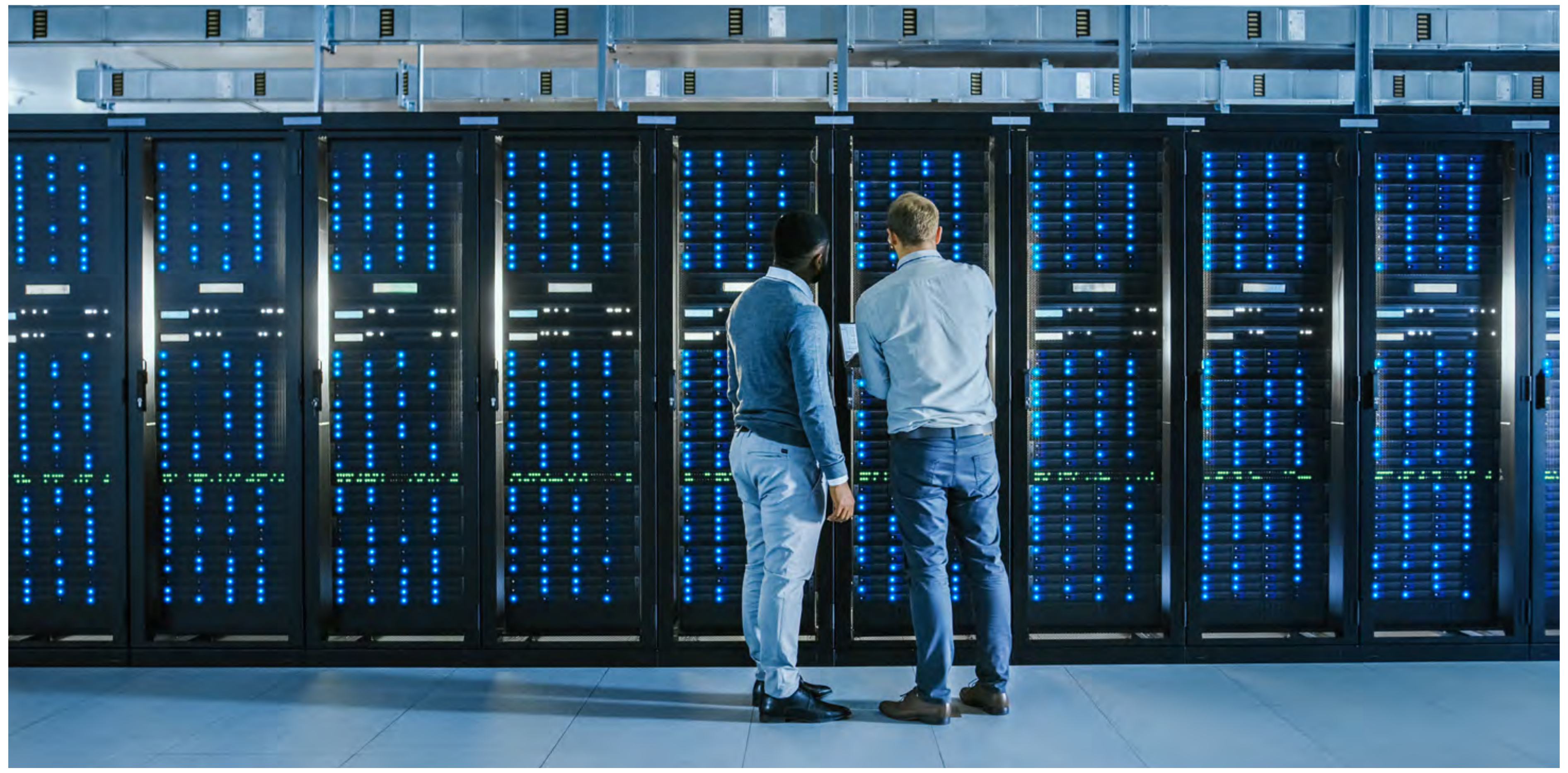
US$ 45 billion combined in entity-level purchases.

EMEA

US$ 26 billion in the last 10 years.

APAC

US$ 53 billion expected by 2028.



Future Factors: De-risking supply chains & re/near-shoring

Re-shoring, near-shoring and 'friend-shoring' as key future drivers of industrial and logistics demand have been gaining traction in recent years. When looking at corporate foreign direct investment (FDI) into manufacturing, distribution and retailing over the last 20 years, but broken down by era, we can start to see shifts in production and supply chains.

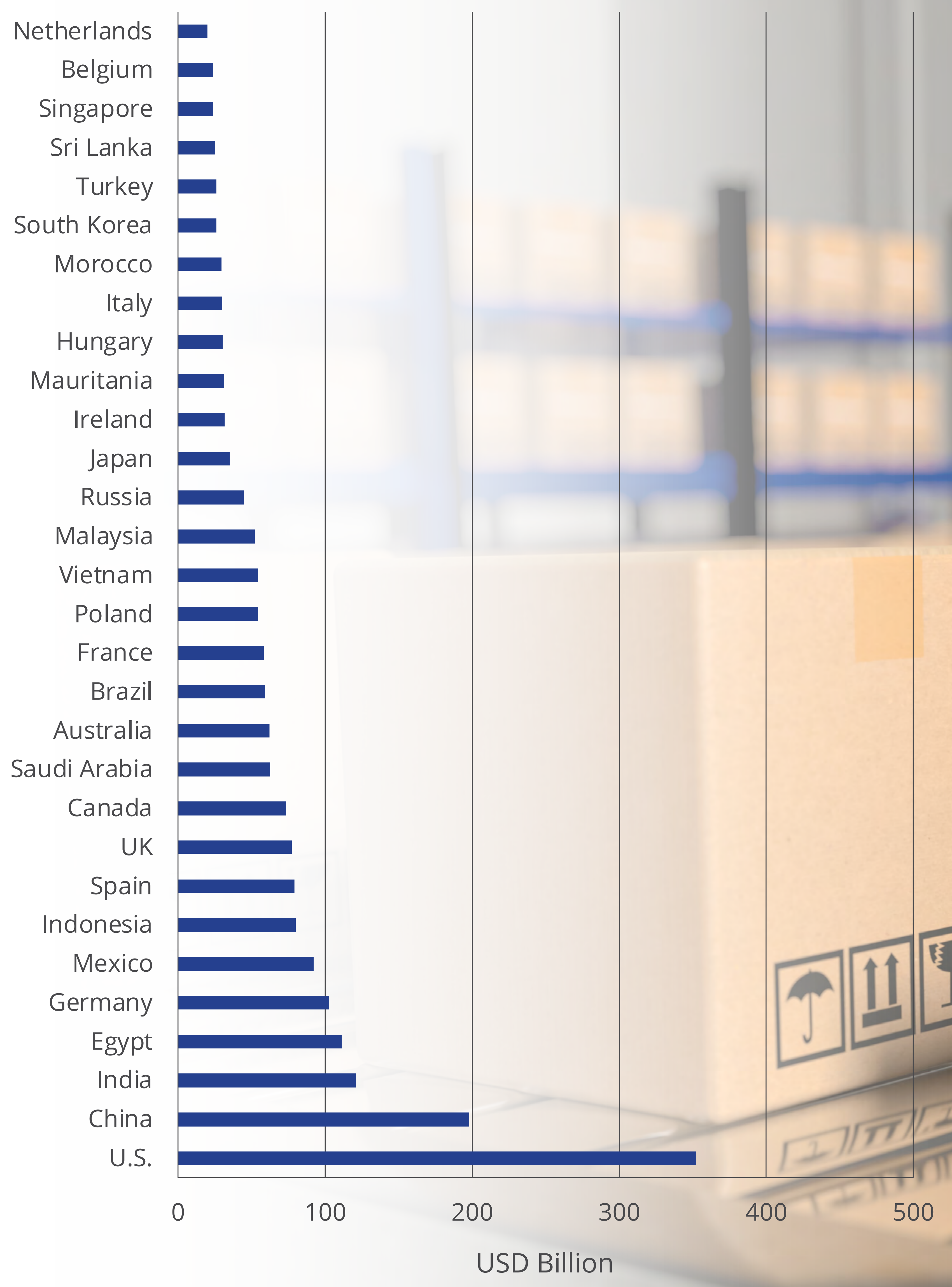
While China remains the largest recipient of global FDI into manufacturing, retail and distribution over the last 20 years, its share of investment in the current 'disruption era' (2018 to date: post-Brexit, U.S./China trade wars, Covid) has diminished, see figure 17. The U.S. accounts for the majority of FDI in this current era (c.US$ 350 billion), reflecting the successful push by recent governments to repatriate and entice manufacturing investment into the country. The current administration's Chips Act and the Inflation Reduction Act, which together include more than $400 billion in tax credits, grants and loans designed to foster a domestic semiconductor industry and clean-tech manufacturing base, have supported this shift in activity. It is also notable that Mexico and Canada feature highly.

Many mature economies now feature in the top 20 - notably Germany, Spain, the UK, France and Japan - reflecting a gradual re-shoring/de-risking of production and supply chains. Other (non-BRICS[1]/MINT[2]) 'growth' markets also featuring highly - notably Egypt, Poland, Vietnam and Malaysia – all of which have become key growth markets for investment, given their strategic near/re-shoring positions adjacent to larger, more established economies.

China will continue to be a key global market, but overseas businesses operating in the country are now creating corporate entities increasingly ring-fenced to China. As European and U.S. companies are looking at alternative suppliers to serve domestic markets with politically neutral or acceptable products, new value-add supply chains will be developed outside of China. Given the hawkish relationships with EMEA and the U.S., Chinese companies are also de-risking, as they are looking for non-U.S. component suppliers for their customers. Chinese business CNGR recently decided upon Morocco as an alternative location for battery production; Morocco having the benefit of open trade agreements with the U.S. and established supply chains into Europe. Looking forward, a gradual de-risking and re-shoring of production and supply chains will continue to create growth opportunities across markets.

[1] BRICS - Brazil, Russia, India, China and South Africa
[2] MINT - Mexico, Indonesia, Nigeria and Turkey

Figure 17. Disruption Era: Top 30 FDI Destinations - Manufacturing, Retail & Logistics (2018 - 2023)



Source: Colliers, FDI Markets

Key takeaways

I&L will continue to lead global investment activity

- As anticipated, the industrial and logistics sector is proving to be the pioneer in driving investment activity forward globally. It has repriced hardest and fastest, from a yield/cap rate perspective, relative to shifts in interest rates.
- Underlying fundamentals continue to support solid income bases, and in some cases further rental growth, with only a few locations anticipating some weakness in the next 12 months.
- A weakening economic outlook has led to a slow-down in leasing demand, but this is largely cyclical as households and businesses come to terms with higher costs of living and doing business.

Key structural drivers of growth

- Further growth in demand will be delivered by continual structural shifts in e-commerce penetration, digitisation and supply-chain de-risking.
- Many markets are yet to reach ‘global averages’ based on the current penetration of e-retailing, even when allowing for cultural nuances and customer behaviour.
- The data centre market continues to expand at a fast pace in emerging economies, and with higher degrees of sophistication in more established markets as economies and society continue to digitize.
- Supply chain re-shoring and near-shoring expansion plans will continue to evolve along economic and political lines, generating demand growth across industries and markets - although this may generate some downside to the absorption of space where relocations come into effect.

ESG factors need to be considered

- These key structural shifts need to be considered alongside the growing requirement to de-risk from an ESG perspective.
- The benefits to occupiers are obvious in terms of better managing operational costs, and enabling them to occupy assets that meet their ESG aspirations.
- For landlords/investors, the same alignment benefits apply, with the additional upside of creating the potential for rental premiums that capture energy savings.
- The sector has the capacity to go from strength to strength, even though the days of out-sized rental growth are likely behind it.

Colliers

FOR COMMERCIAL REAL ESTATE INVESTMENT INSIGHTS AND OPPORTUNITIES

Global and Asia Pacific Leaders

Luke Dawson
Head of Global & EMEA
Capital Markets
+44 7821 636148
luke.dawson@colliers.com

Chris Pilgrim
Managing Director
Global Capital Markets, Asia Pacific
+65 8952 6064
chris.pilgrim@colliers.com

John Howald
Executive Director & Head of
International Capital, Asia Pacific
+65 6531 8575
john.howald@colliers.com

Michael Bowens
Head of Industrial
Asia
+65 6531 8650
michael bowens@colliers.com

Country Leaders

Gavin Bishop
Managing Director, Industrial
Head of Industrial Capital Markets, Australia
+61 401 146 051
gavin.bishop@colliers.com

Jimmy Gu
Deputy Managing Director
Capital Markets, China
+86 138 1796 1312
jimmy.gu@colliers.com

Jason Yang
Deputy Managing Director
Capital Markets, China
+86 158 0096 0634
jason.yang@colliers.com

Stanley Wong
Senior Executive Director
Capital Markets, Hong Kong
+852 6012 1595
stanley.wong@colliers.com

Thomas Chak
Executive Director
Capital Markets, Hong Kong
+852 2822 0593
thomas.chak@colliers.com

Piyush Gupta
Managing Director
Capital Markets, India
+919820321806
piyush.gupta@colliers.com

Hisakazu Iso
Deputy Managing Director
Head of Capital Markets, Japan
+81 3 4572 1305
hisakazu.iso@colliers.com

Greg Goldfinch
National Director
Industrial,, New Zealand
+64 21 537 682
greg.goldfinch@colliers.com

Paul Chua
Director
Capital Markets, Philippines
+63 917 532 5279
paul.chua@colliers.com

Wei Leng Tang
Managing Director
Head of Capital Markets, Singapore
+65 9639 6183
weileng.tang@colliers.com

Derek Huang
Deputy Managing Director
Capital Markets, Taiwan
+886 917 250 002
derek.huang@colliers.com

Sungwook Cho
Managing Director
Head of Capital Markets, South Korea
+82 2 6325 1904
sungwook.cho@colliers.com

CAPITAL MARKETS RESEARCH LEADS

Damian Harrington
Head of Research,
Global Capital Markets & EMEA
+44 7867 360489
damian.harrington@colliers.com

Joanne Henderson
National Director, Research
Australia
+61 2 9257 0286
joanne.henderson@colliers.com